

CURRENT SITUATION OF MONGOLIA-CHINA TRADE AND ECONOMIC COOPERATION AND FURTHER TRENDS

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Joint Dissemination Workshop on the Study of Zamyn- Uud, Erlian Border Development Program

14 April 2009
Hohhot, IMAR, PRC

Dear Mr. ...
Honourable Guests and Delegates,
Ladies and Gentlemen,

I wish to welcome the Honourable Delegation of the Government of the People's Republic of China and the representatives of the Asian Development Bank at this Joint Dissemination Workshop.

Taking this opportunity, I would like, on behalf of the Ministry of Foreign Affairs and Trade of Mongolia to express our gratitude to the Government of the PRC and the ADB for its continued support and cooperation for border development program, for their hard work in organizing this excellent Workshop.

Mongolia and China have long-standing historic and traditional relations.

Our relations have been developing agreeably in the political, economic and social sectors, especially in the trade and economic sector, in recent years.

Presently, there are more than 100 agreements in force between the two countries that regulate our trade and economic cooperation.

The Agreement on Friendly Relations and Cooperation between Mongolia and People's Republic of China was signed in 1994 in Ulaanbaatar city. It defined the basic principles to develop friendly and good neighbourly relations and cooperation between our two countries.

In 2003, we mutually agreed to define our relations as **friendly and good neighbourly partnership based on mutual trust**.

The Intergovernmental Committee on Trade, Economic, Scientific and Technical Cooperation between the Government of Mongolia and the Government of the PR of China, serving as the main mechanism regulating the trade and economic cooperation, meets regularly.

Between 1991 and 2008, the Committee has met 11 times; the last such meeting was successfully completed last week in Beijing.

Trade

China is the biggest trading partner of Mongolia. If trade turnover between Mongolia and China was USD 33.6 million in 1990, in 2008 or in 18 years, this figure increased by 83 times reaching USD 2.8 billion.

Trade turnover between Mongolia and China /USD million/

	1990	1991	1992	1993	1994	1995
Total turnover	33.6	69.1	126.9	186.1	84.2	112.6
Exports	11.3	52.8	69.4	120.2	62.8	73.2
Imports	22.3	16.3	57.6	65.9	21.4	39.4

	1996	1997	1998	1999	2000	2001
Total turnover	139.0	158.5	143.4	255.7	377,2	314.1
Exports	75.0	60.3	88.4	191.7	267,07	200,6
Imports	64.0	98.2	55.0	64	109,5	113,5

	2002	2003	2004	2005	2006	2007
Total turnover	360.0	448.2	661.3	811,0	1450,3	2071,5
Exports	220	276.6	407.8	505,2	1046,5	1406,9
Imports	140	171.5	253.5	305,8	403,8	664,6

	2008	2010	2011	2012	2013	2014
Total turnover	2814,0					
Exports	1631,3					
Imports	1182,7					

In the last three years, the total trade turnover between the two countries has been increasing by 35-70% year-on-year, showing the rapid development of cooperation between Mongolia and China.

Investment

Direct investment from China to Mongolia has been increasing annually. China has led Mongolia's list of investors in the last 8 years. As of the end of 2008, there were 4595 Chinese Entities registered with the total investment of USD 1.6 billion. Over the last 4 years, investment from China has increased by 3.7 times and the number of entities has seen a four-fold increase. 67.3% of total investment from China was made in the mining sector and about 20% was made in trade and restoration.

Investment from Mongolia to China, both in terms of size and the number of entities, is very limited. As of present, there are about 40 Mongolian Entities operating in China. Such limited presence of mongolian businesses in China can partly be explained by the fact that the capacity of our businesses, including their technical capabilities and competitiveness, is still lacking.

Loans and grant aids provided by China

The inseparable part of Mongolia-China trade and economic cooperation is loans and grant aids from China to Mongolia and projects implemented with their help.

The initial loan of 22.5 million in convertible rubles given in 1958 and 45.0 million in 1960 was provided to Mongolia with an interest rate of 1% a year and between 1962 and 1976 loans were provided on the condition of paying back in export goods.

The Government of China provided interest-free loans of ¥50 million in 1991, ¥ 30 million in 1992 and ¥ 50 million in 1994. The loans were effectively utilized for procurement and project funding.

The soft loan of ¥ 200 million provided in 2001 and 2005 was used for exploiting a zinc deposit in Sukhbaatar province upon the agreement by the two Governments. This project is considered as one of the most effective ones implemented with the investment from China.

As of 2008, 46.1 million in convertible rubles and ¥ 330 million is given as soft loans.

The grant aid of 36.0 million rubles given to Mongolia based on the Economic and Technical Assistance Agreements of 1956 and 1960 between Mongolia and China was the first such aid to Mongolia.

At the end of 2008, a total of 36 million in convertible rubles, ¥ 540 million and USD 4.1 million was provided in grant aid.

Sectoral cooperation

The expansion of direct cooperation between governmental and non-governmental organizations in mining, construction, roads, transportation, agriculture, banking and financial sectors in the recent past through agreements, exchange of experts and expertise is a major pillar for strengthening our relations.

Tourism sector

One of the positive aspects in expanding cooperation in the tourism sector is the inclusion of Mongolia in the list of countries, to which the Chinese citizens are allowed to tour on their own expense.

Touristic visits between the two countries have increased to a substantial extent. According to the statistics from the Mongolian Border Protection Organization, more than 200 thousand Chinese citizens visited Mongolia and 790 thousand Mongolian citizens either visited China or transited through China in 2008.

Auto transportation

Inter-country freight and passenger auto transportation is regulated by a 1991 Agreement on Auto Transportation between the Government of Mongolia and the Government of the PR of China, the protocols and regulations thereof.

Presently, there are 12 permanent and temporary border points operating on the Mongolian and Chinese borders. However, with the increase of the freight volume due to the increase of exploration and exportation of minerals, including coal and oil, the present capacity and functioning of border points under the 1991 Agreement no longer serve the purpose.

Therefore, the two Governments have started the negotiations to set up a working group with a view to renewing the Agreement.

Mongolia joined the TIR Convention in 2001. As such, the legal environment for conducting transit transportation at the international level has been created. Additionally, freight forwarders are provided with the conditions that meet their requirements and demands. These freight forwarders face a real challenge in transporting through to the nearest port in China, the Tianjin port.

Civil aviation sector

According to the Civil Aviation Agreement between the Government of Mongolia and the Government of China, Aeromongolia Co., Ltd operates regular flights between Ulaanbaatar and HuhHote, AirChina and the MIAT operate flights between Ulaanbaatar and Beijing. The

MIAT has started the regular flights between the two destinations since 1987 and the Air China since 1991.

As a result of a meeting held between the Civil Aviation Authority of Mongolia and the Civil Aviation Administration of China in January 2008, the two sides agreed to increase the number of flights between Ulaanbaatar and Beijing to 14 per week, other flights, except between Ulaanbaatar and Beijing, to the total of 14 per week and the cargo flights to 10 per week. Both sides reserve the right to decide the flight destinations and the number of flights within the scope of their authorities.

Railway sector

Regular passenger trains commute between Ulaanbaatar and Beijing and between Ulaanbaatar and HuhHote. As the number of passengers between these destinations increase, the two sides have agreed to have additional trains in the summer time. Passenger buses have started operating between Zamyn-Uud and Erlian since 1992.

The current capacity of the railways does not meet the present requirements for cargo transportation. The China Railways is fully capable to manage cargo transportation from Mongolia, whereas Mongolia is not well equipped to manage large amounts of cargo. Therefore, there is an urgent need for improving the cargo re-loading facilities in Zamyn-Uud and putting into operation the new terminal for re-loading cargo from cars to trains.

The Government of Mongolia supports in principal investment from China as there is a need to attract foreign investment to build new railways in Mongolia.

Road and transport sector

The construction of new auto roads has been intensified in recent years due to the increased role of roads in the social and economic development of Mongolia. In this relation, certain parts of foreign investment come to this sector. Investment from China has substantially increased in road construction. Chinese entities are actively participating in the “Millennium Road” project implemented by the Government of Mongolia. Under the project, the ADB has pledged USD 37.6 million for the construction of a western vertical road that connects northern and southern borders. According to the preliminary estimations, USD 199.5 million is needed for the construction of a 748.4 km-long road, of which 220 km are to be constructed with the aid of the ADB and funding by the Government of Mongolia. The construction of the rest of the roads needs additional financing. An agreement was reached between the two sides to allocate USD 50 million from the USD 300 million loan package from China.

Construction and urban development

A Mid-term Programme for Trade and Economic Cooperation between Mongolia and China was signed in 2008. The Programme set to solve 9 issues on construction and urban development and 12 issues on road and transport; the implementation work has started.

Geology and mining sector

The leaders of the two countries have mutually recognized the geology and the mining sector as a priority sector in bilateral trade and economic cooperation. In this relation, the Government of Mongolia is working to fully utilize the advantages of both countries such as technology difference, markets, human resources, geographical location, environment and weather proximity in a mutually beneficial and complimenting way. Also, the Government supports the cooperation in the mining sector at the policy level.

It was agreed to establish a “Sub-committee on the Cooperation in the Mining Sector under the Mongolia-China Intergovernmental Committee” during the 9th meeting of the Mongolia-China Intergovernmental Committee in 2005.

Cooperation outlook

The Mid-term Programme for Trade and Economic Cooperation between Mongolia and China between 2008 and 2012 has assessed the current situation of trade and economic cooperation and identified the basis for further trade and economic cooperation. It has reflected a detailed plan for action in all respective sectors. The Programme states that “the objective of trade and economic cooperation between Mongolia and China is to improve the business environment, enhance the cooperation framework and create a multi-faceted and multi-layered high-level trade and economic cooperation infrastructure through fully utilizing the countries’ economic capacities based on friendly relations.”

Finally, I would like to note that the opportunities and possibilities for further continuous and prosperous trade and economic cooperation between Mongolia and China are there.

Thank you for your kind attention.